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**Meeting of the Place Scrutiny Committee – 9<sup>th</sup> March 2017**

**Report of the Strategic Director Place**

**Outcome of inspection of the efficiency of the Direct Labour Organisation**

**Purpose of Report**

1. The purpose of this report is to:
  - a) provide the background behind the reasons for carrying out the inspection and place it in the context of the 30 year HRA business plan and investment requirements, and ongoing work towards producing an HRA strategic asset management strategy;
  - b) provide a summary of the main findings of the report;
  - c) set out the next steps proposed.

**Background**

2. Alongside annual statutory repair and maintenance liabilities, current estimates are that the Council's housing stock investment, repairs and maintenance liability will be in the region of £1.2bn over the next 30 years. With this level of expenditure, a long-term strategic approach is necessary to retain asset value against the current HRA finance debt of £477m and to ensure that the Council's housing stock remains fit for purpose.
3. Part of that long term strategic approach requires Housing Services and the HRA to be clear that it is procuring planned and day to day works in the most cost effective, value for money way possible, and that the contractors that it uses are efficient, effective and able to deliver on the key priorities that Housing has identified and will continue to identify and develop flowing on from the factors listed in paragraph 2 above.
4. The Council's Direct Labour Organisation (DLO) has a key role not only in terms of being the main contractor delivering day to day repairs and void works on behalf of Housing Services, but in terms of the contribution that it makes to the planned and cyclical repairs role, and the contribution that it may be able to make in terms of delivering longer termed planned works as outlined in paragraph 2 immediately above. It also has ambitions to engage in commercial activities to generate income for the Council.
5. Ark Consultants were originally engaged to carry out an inspection of Housing Services. This also included looking at a top line level at the activities of the DLO and this report was produced in May 2016.

6. One of the points highlighted within that report was the need to drill down deeper into examining the DLO service in detail, given its systemic importance to Housing Services and its ambitions to engage in commercial activity as outlined above, and so Ark were retained to look at the DLO in more detail and to report their findings, and they produced their report in November 2016.

### **Summary of findings**

7. The recommendations from the report are attached as Appendix A, with additional key information in summary around governance structure, DLO trading accounts, and Housemark and Ark benchmarking results. Full copies of the report are available on request. Overall, the DLO service is felt to be performing well. It is noted that improvements to the service are being delivered and that outcomes delivered are generally good, and in particular notes that this is reflected in reported levels of tenant satisfaction.
8. The report also noted evidence of a strong performance management culture and recognition of recent work to align performance management work to Housemark to improve benchmarking with comparable organisations, and that there was strong and good performance around health and safety.
9. Costs of responsive and cyclical maintenance were noted by Ark as in the best quartile (4.1% below average for voids repairs and 15.3% below average for repairs). Similarly, performance on responsive repairs was noted as best quartile, and generally DLO prices were 29% below National Housing Federation base prices.
10. Ark also noted that there was a strong leadership culture and recognised the constructive managerial linkages between the strategic “client side” in Housing Services and the operational/delivery in the form of the DLO sitting in the Environmental Services function.
11. There are some challenges to face, for example, Major works costs are noted as being high, but this should be considered in the context of the level of capital spend per property (that is to say that it reflects a high level of investment in stock, and is not a measure of high cost poor value for money).
12. It is also noted that there are still opportunities to clarify responsibilities and reducing any potential duplication between the Housing/Client side and the DLO/Delivery side, in recognition of the need to examine ways to reduce the need for multiple inspection visits on repairs that could lead to planned works programmes and also looking for opportunities to reduce the number of inspections, saving further time and money and leading to further efficiency gains in the delivery of day to day and other works carried out for Housing by the DLO.

13. The report also recommended addressing the DLO's capacity and competence to carry out work in-house rather than sub-contracting. Whilst this is ongoing work across a range of trades and functions, this does build upon work already in progress, for example the recently adopted proposal to in-source gas servicing as a 'bread and butter' continuous cycle of work where a greater degree of autonomy and control will lead us to deliver better, more efficient services.
14. The report also recommended that we conduct a review of the service delivery models available to the Council including the opportunities and risks of moving the DLO towards a more commercial footing, whilst also reviewing financial management arrangements that would form the basis for a new DLO trading account which is transparent, clearly auditable, allows for easy monitoring and management of the DLO business, and that enables Housing Services as the principal customer of the DLO to easily identify and evidence value for money and best value. This includes a recommendation to review corporate and departmental overheads with a view to reducing costs wherever possible (including a review of sickness and absence) and also leads in to reviewing the DLO management structure (now in progress), a proposal for an outsourced stores provision and a fundamental review of fleet management.
15. In terms of the summary within this report, Ark recommended that the role of Councillors in monitoring and scrutinising performance through the involvement of the portfolio holders and Place Scrutiny Committee should be strengthened, essentially in order to ensure that the DLO delivers in terms of the issues discussed in this report, set out at Appendix A, and that are explored in more detail in the full report.
16. To further improve the service, the report recommends that the Council improves leadership capacity and focus based on a shared vision for the service. This should be underpinned by strengthened performance management arrangements and a robust change management and organisational development plan. It also recommends that we should look at ways to improve the efficiency and value for money of the service.

### **Next steps**

17. Officers have considered how to take forward the points summarised in paragraphs 7 – 16 above. At this stage the direction of travel that is proposed is set out below.
18. There is a desire to explore the viability of a more commercial approach and service improvement framework for the HRA and DLO which creates a more resilient service delivery structure, and one that optimizes the capacity and capability of the Council to deliver the more strategic approach to asset management that is required and set out in paragraph 2 (above), currently proposed to be in place over the next 12 months.

19. In particular, there is a need to be able to easily and transparently obtain/ provide demonstrable evidence that the HRA (particularly in respect of tenants' rents) is securing value for money in the management, procurement and delivery of all HRA services and investment.
20. It is intended to carry out a commercial assessment based on increased transparency across the HRA, on a total cost basis of those activities where value for tenants' rents is being delivered (and by implication identify those areas where it is not). We are also looking for assurance that the service delivery structures/commissioning arrangements currently in place are sufficiently able to support successful delivery of the HRA asset management strategy when approved (in 2017/18), and to accommodate new ways of working including a broader programme of service led interventions and investment activity which are likely as a result of the Council's strategic approach to asset management going forward.
21. The main approach proposed is one around the following themes:
  - Agreeing and assigning clear accountabilities and responsibilities;
  - Reviewing and implementing a transparent and visible total service cost strategy;
  - Reviewing, developing and implementing resource deployment models;
  - Reviewing, developing and implementing preventative and optimised repairs, maintenance and investment planning;
  - Reviewing, developing and implementing robust reporting and performance management processes; and
  - Designing and implementing a comprehensive audit and control plan to ensure that transparent asset management, service and process performance is maintained going forward.
22. Ultimately, the objective is to be able to clearly identify the root cause and effects of delivery practices on financial and quality performance outputs, and then to be able to have a framework in place that embeds the changes required to bring sustainable financial and performance benefits in the environments in which it is applied.
23. The outcomes targeted seek to improve performance, transparency and commercial focus across services, helping the Council to deliver a number of cashable efficiencies, which then enable us to maintain high quality services and to maintain our stock, in the wider context of significant changes in the external environment (how housing delivery and maintenance is funded, right to buy and a range of welfare reforms) are likely to impact on us going forward.

## **Equality Impact**

24. Should approval be given to the proposed next steps as set out at paragraphs 17 – 23 inclusive above, then any detailed workstreams developed and any further reports and proposals would be the subject of Equalities Impact Assessments in due course.

## **Recommendations**

25. It is recommended that the Scrutiny Committee note and comment on the content of this report.



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## **List of Background Papers:**

Appendix A – Summary of findings from ARK consultants